

23 February 2021

Subject: Management Discussion and Analysis - For the year ended 31 December 2020

To: The President of Stock Exchange of Thailand

MFEC Public Company Limited (“the Company”) would like to notify the operating results that the Company reported net profit’s equity owner of the parent for the year ended 31 December 2020 of Baht 244.6 million, net profit increase by Baht 19.2 million or 8.5% compared to last year which were net profit of Baht 225.4 million, due reason to the following reasons:

Overall Operating results

Description	Y2020		Y2019		Change	
	Mil THB	%	Mil THB	%	Mil THB	%
Revenue from Sales and Services	4,670.8	100.0%	3,688.1	100.0%	982.7	26.6%
Cost of Sales and Services	(3,812.9)	-81.6%	(2,893.6)	-78.8%	(919.3)	31.8%
Gross Profit, before Operating Expenses	857.9	18.4%	794.5	21.6%	63.4	8.0%
Other Income	69.5	1.5%	41.2	1.1%	28.3	68.7%
Selling and Administrative Expenses	(607.3)	-13.0%	(552.9)	-15.1%	(54.4)	9.8%
<b>Profit from Operating, before interest and Tax</b>	<b>320.1</b>	<b>6.9%</b>	<b>282.8</b>	<b>7.7%</b>	<b>37.3</b>	<b>13.2%</b>
Share of Profit from Associates	1.7	0.0%	2.4	0.1%	(0.7)	-29.2%
Financial Costs	(11.1)	-0.2%	(4.0)	-0.1%	(7.1)	177.5%
<b>Net Profit, Before Corporate Tax</b>	<b>310.7</b>	<b>6.7%</b>	<b>281.2</b>	<b>7.6%</b>	<b>29.5</b>	<b>10.5%</b>
Corporate Income Tax	(63.0)	-1.3%	(53.1)	-1.4%	(9.9)	18.6%
<b>Net Profit</b>	<b>247.7</b>	<b>5.3%</b>	<b>228.1</b>	<b>6.2%</b>	<b>19.6</b>	<b>8.6%</b>
Profit Attributed to Non-Controlling Interests	(3.1)	-0.1%	(2.7)	-0.1%	(0.4)	14.8%
<b>Net Profit, Parent portion</b>	<b>244.6</b>	<b>5.2%</b>	<b>225.4</b>	<b>6.1%</b>	<b>19.2</b>	<b>8.5%</b>

Since the beginning of 2020, business in Thailand and around the world have been widely affected by COVID-19. However, the Company’s revenues generated from projects that have carried its operation from 2019. Although at the beginning of the COVID-19 epidemic, there were affected some delay in term of project handover to the customers. However, the Group has able to learn and adapt to the situation in a timely manner. This result in enable to handover many large contract value of the projects within 2020, especially in the last quarter of the year 2020. In addition, the company has created a new working methodology that can support work during the COVID epidemic to maintain the most efficiency, reducing risks may be impacted to business interruption, as well as, preparing to conduct business readily during post COVID that able to compete in different manner.

In 2020, the Group achieved in acquire several large projects with contract value of Baht 100-1,000 million, project duration between 3-5 years. The Group recognized revenue from large projects during the year, as a result, the Group's total revenues for the year 2020 was significantly growth to be Baht 4,670.8 million, which is the highest Group's revenue in the last 7 years. In addition, the Group remains backlog project that allow the revenue recognition from projects carrying in 2021 and onwards, with significant numbers of backlog compared to the late of 2019.

Under severe price competition market conditions, the Group focused to offer advantage in selling pricing in order to maintain market share in IT service provider sector. As a result, the gross profit margin for the year 2020 decreased compared to last year. It is considered successful in term of ability to maintain the Group's market share in IT service sector as well as, reflecting significant increase in revenue. In addition, several large projects that the Group has acquired during 2020 have an average project duration of 3-5 years. These can enable the Group to manage with long-term resource planning to utilize internal resources with the most efficiency. Although, the gross profit margin percentage declined compare to last year. However, revenue was extremely increase and affected the gross profit realized during 2020, of Baht 857.9 million, or increase by Baht 63.4 million from last year. These factors are directly resulted in term of the Group's net profit growth in 2020.

1. Revenue from sales and services increase from last year by Baht 982.8 million or 26.6% due following to:

Revenue from Business segment	For the year 2020		For the year 2019		Increase (decrease)	
	Million Baht	% to total revenue	Million Baht	% to total revenue	Million Baht	% Change
System Integration services	2,153.3	92.0%	1,500.9	92.7%	879.7	25.7%
System maintenance services	1,288.1		1,175.8			
IT Professional services	855.5		740.5			
Cloud solution service	345.3	7.4%	260.6	7.1%	84.7	32.5%
Other business	28.7	0.6%	10.3	0.3%	18.4	178.6%
Total sales and services	4,670.9	100.0%	3,688.1	100.0%	982.8	26.6%

The group company conducted in 3 main business segments which are system integration and implementation service, System maintenance service, and IT professional services with revenue proportion for the year 2020 of 92% of the total revenue from sales and services (2019: 92.7% of the total revenues), Revenues from these 3 main business segments increased by Baht 879.7 million with revenue growth of 25.7% from last year.

In addition, Cloud Solution Service revenues, which accounted for the revenue recognition in 2020 of 7.4%, with revenue growth by 32.5% year-on-year. Cloud solution service is grow steadily reflected very well response from leading enterprise customers to enhance data management using Cloud technology.

2. Cost of sales and service increase by Baht 919.3 million or 31.8% compared to last year.

Description	For the year 2020	For the year 2019	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Revenue from sales and services	4,670.8	3,688.1	982.7	26.6%
Cost of sales and services	3,812.9	2,893.6	919.3	31.8%
Gross Profit	857.9	794.5	63.4	8.0%

Gross Profit (%)	18.4%	21.6%	(3.2%)
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Cost of sales and services for the year 2020 were Baht 3,812.9 million. The increase in cost of sales and services is representing direct proportion to revenue recognition and in according to point in time upon the service performed based on percentage of work completion, as well as conforming over the period of the time for revenue and costs arising from Maintenance Service Agreement. Although, severe price competition within IT service sector along the current year. The Group had reported gross profit margin for the current year of 18.4% with a decrease of 3.2% from last year. However, an increase in revenue from sales and services of 26.6%, is resulted in the Group's gross profit increased by Baht 63.4 million or 8%.

3. Other income for the year 2020 was Baht 59.9 million. An increase from last year by Baht 18.7 million or 45.4% is resulted from the increment in gain on exchange rate and rebate promotion from major suppliers amount of Baht 7.2 million and Baht 4.7 million, respectively.
4. Selling and Administrative expenses for the year ended 31 December 2020 were Baht 607.3 million, an increase of Baht 54.5 million or 9.9% compared to the same period of last year.

Description	For the year 2020	For the year 2019	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Selling and distribution expenses	100.9	111.7	(10.8)	(9.7%)
Administrative expenses	506.4	481.1	25.3	5.3%
Reversal of impairment loss on investment	-	(40.0)	40.0	100.0%
Total Selling and Administrative Expenses	607.3	552.8	54.5	9.9%

Administrative expenses increase by Baht 25.3 million or 5.3% is mainly from the recognition non-recurring expenses and non-monetary item during the year 2020 in the amount of Baht 25.5 million.

Non-recurring expenses

During the year 2020, the Company recognized Provision for Expected Credit Loss of Baht 25.5 million, since The Central Bankruptcy Court granted a large enterprise customer of the Company to undertake a business reorganization. Such expected credit loss is recorded in accordance with the requirements of Thai Financial Reporting Standards (TFRS) No. 9 “Financial Instruments” which effective from 1 January 2020. However, such loss is non-monetary item, non-recurring transaction and does not affect the operations of the Group.

5. Financial costs for the year ended 31 December 2020 were Baht 11.1 million, an increase from last year of Baht 7.1 million or 177.5%.

Description	For the year 2020	For the year 2019	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Financial cost from borrowing	1.3	4.0	(2.7)	(67.5%)
Financial cost from Right of Use of assets	9.8	-	9.8	100.0%
Total Financial costs	11.1	4.0	7.1	177.5%

Financial costs increase due to the adoption of the new Thai Financial Reporting Standards (TFRS) No. 16 “Lease” which effective on 1 January 2020. The Company has recognized Right of Use of assets and liability from lease contract from every lease contract period over than 12 months. From the effective of TFRS No. 16, the Group has recorded financial costs occurred from the lease contract over the lease period of each contract. The Group recorded financial costs incurred from the said right-of-use asset lease agreements in the income statement for the year 2020 totaling Baht 9.8 million.

Please be informed in accordingly.

Your sincerely,

(Mr. Siriwat Vongjarukorn)

Chief Executive Officer